TheINVESTOR

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TheECONOMY

COVID-19's Impact on Financial Markets

COVID-19 (coronavirus) has rapidly spread across the globe after first emerging in central China in late 2019. The World Health Organization formally declared COVID-19 a pandemic on March 11, 2020. As of March 30, 2020, the virus has infected more than 745,000 people in 177 countries, leaving more than 35,000 dead.

Given the rapidly evolving nature of the pandemic and the uncertainty regarding its future trajectory, financial markets have experienced significant volatility over the past several weeks. This volatility is likely to continue until there is greater certainty around the path of the pandemic and its effect on the economy.

As a response to the rapidly developing health crisis, the Federal Open Market Committee (FOMC) held two unscheduled meetings in March to discuss COVID-19's impact on financial markets and the economy. The first unscheduled meeting took place on March 3, where the FOMC voted unanimously to lower the target range for the Federal funds rate by 1/2 percentage point to 1.00% - 1.25%. The next unscheduled meeting took place on Sunday, March 15, where the FOMC voted to lower the target range for the Federal funds rate by an additional 1 percentage point to 0.00% - 0.25%. In addition to lowering the Federal funds rate, the committee announced the restart of quantitative easing, additional overnight and term repurchase agreement operations, lowering the rate on the discount window, and a few other liquidity measures.

Since the meeting on March 15, the Federal Reserve (Fed) established several facilities intended to promote proper market functioning. The establishment of these facilities, along with the restart of quantitative easing, are meant to directly address liquidity issues in the financial markets and support the flow of credit to households and businesses. This action should support the Fed's dual mandate of maximum employment and price stability.

With the Fed having cut its target rate to near zero, financial markets are now looking to Congress to continue mitigating the economic fallout from COVID-19. Two initial bipartisan bills related to COVID-19 have already been passed by Congress and signed into law by President Trump. The third bipartisan piece of legislation is a roughly $2 trillion fiscal stimulus bill that provides loans and assistance to both large corporations and small businesses, funding for hospitals, expanded unemployment insurance, and direct checks to individuals. This bill should help to alleviate a portion of the COVID-19 related economic fallout in the near term, but further legislation could be needed depending on the duration of the economic slowdown.

Treasury Yields

MATURITY	3/20/20	2/20/20	CHANGE
3-Month	0.015%	1.572%	-1.557%
6-Month	-0.015%	1.537%	-1.552%
1-Year	0.084%	1.451%	-1.367%
2-Year	0.313%	1.389%	-1.076%
3-Year	0.373%	1.359%	-0.986%
5-Year	0.459%	1.364%	-0.905%
10-Year	0.845%	1.515%	-0.670%
30-Year	1.417%	1.961%	-0.544%

Source: Bloomberg

Agency Yields

MATURITY	3/20/20	2/20/20	CHANGE
3-Month	0.110%	1.564%	-1.454%
6-Month	0.128%	1.576%	-1.448%
1-Year	0.099%	1.534%	-1.435%
2-Year	0.594%	1.414%	-0.820%
3-Year	0.690%	1.393%	-0.703%
5-Year	1.017%	1.446%	-0.429%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

MATURITY	3/20/20	2/20/20	CHANGE
1-Month	1.780%	1.610%	0.170%
3-Month	1.740%	1.640%	0.100%
6-Month	1.160%	1.620%	-0.460%
9-Month	0.600%	1.650%	-1.050%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q4 '19	2.10%
US Unemployment	Feb '20	3.50%
ISM Manufacturing	Feb '20	50.10
PPI YoY	Feb '20	1.20%
CPI YoY	Feb '20	2.30%
Fed Funds Target	Mar 23, 2020	0.00% - 0.25%

Source: Bloomberg